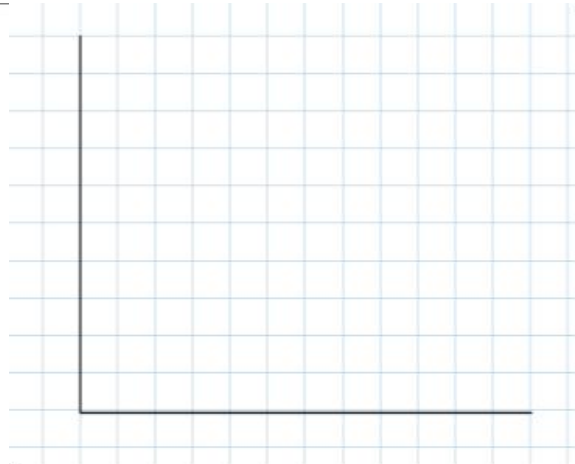
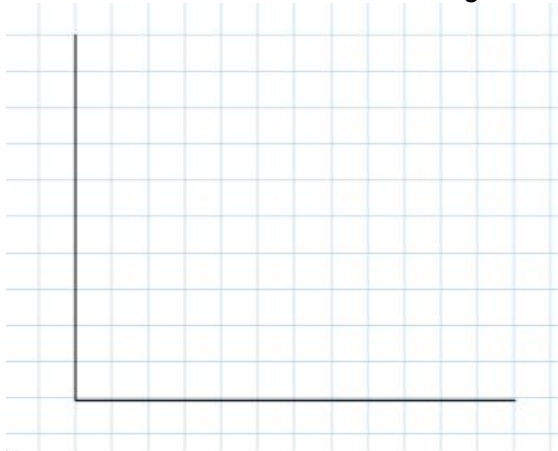


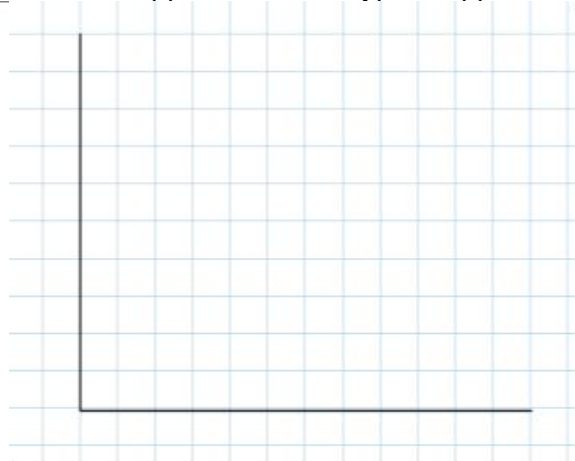
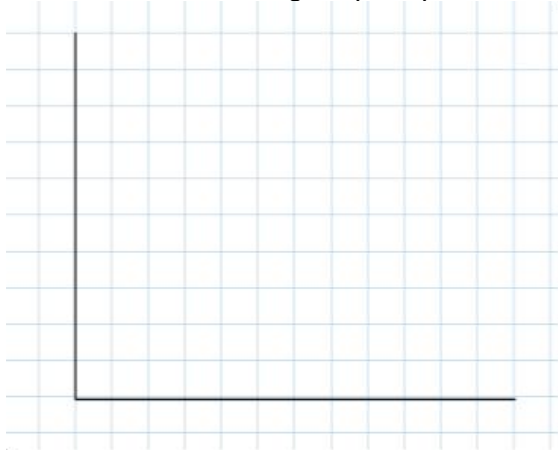
Unit 1.5.2 - Perfect Competition
Practice Activity

1. On the axes below, draw graphs for a perfectly competitive market for apples and an individual farmer in that market. Assume the market is producing at its long-run equilibrium level of output. Explain the situation experienced by the individual farmer when the market is in its long-run equilibrium.



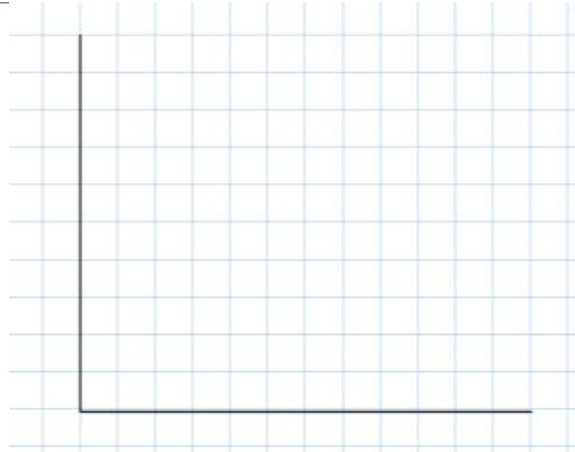
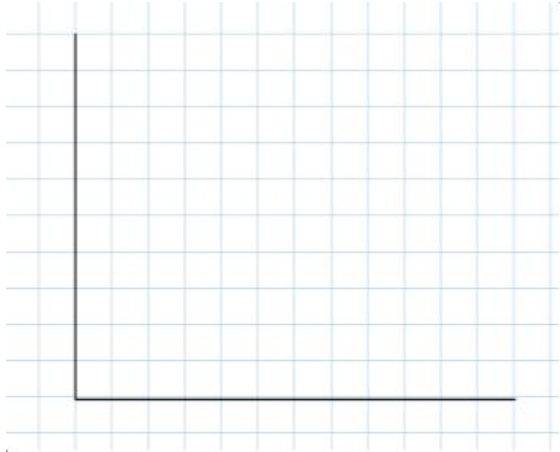
Explain:

2. The price of pears, a close substitute for apples, rises. Illustrate and explain the short-run effect of higher pear prices on the market for apples and for a typical apple farmer.



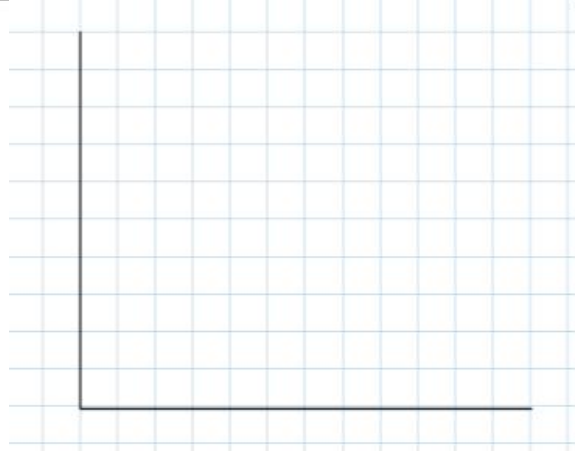
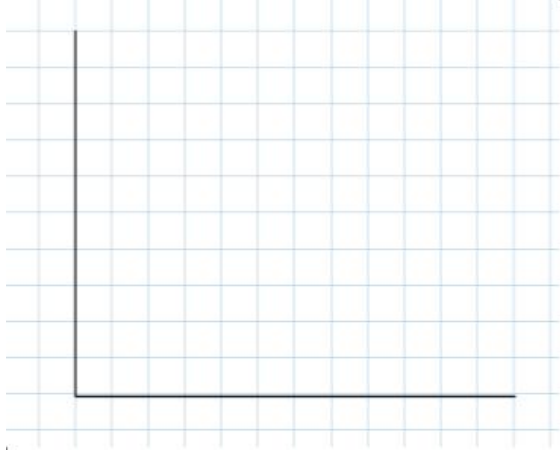
Explain:

3. How will the apple market adjust to the higher prices of pears in the long-run? Show and explain the effect on the market for apples and on an individual apple farmer in the long-run.



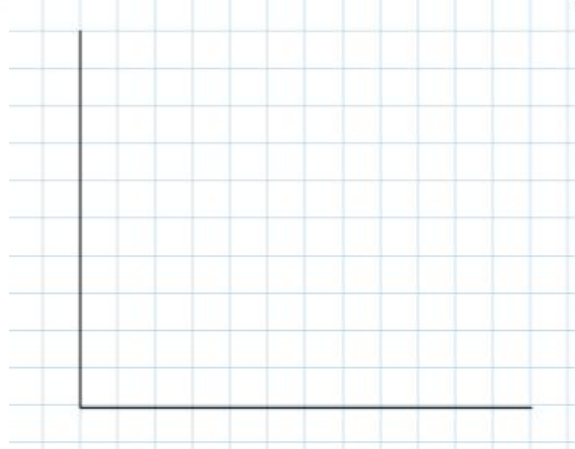
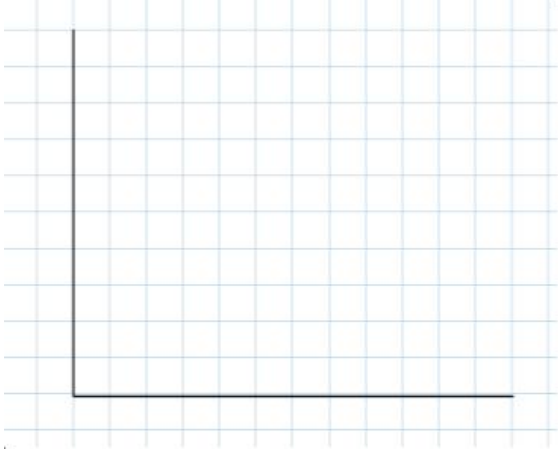
Explain:

4. A new technology which increases the productivity with which apples can be harvested is adopted widely across the farming sector. Show and explain the effect this new technology has on an individual apple farmer and in the apple market in the short-run.



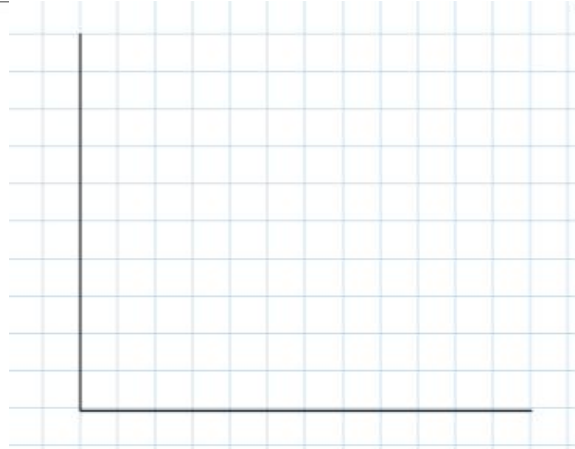
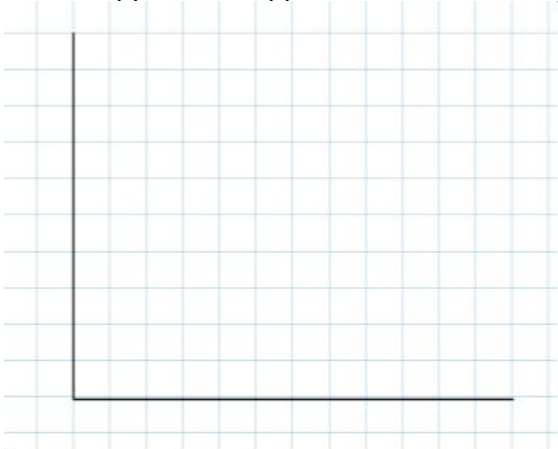
Explain:

5. Tariffs on imported tropical fruits are removed, reducing their prices. Show and explain the effect that a fall in tropical fruit prices will have on the market for apples and the typical apple farmer in the short-run.



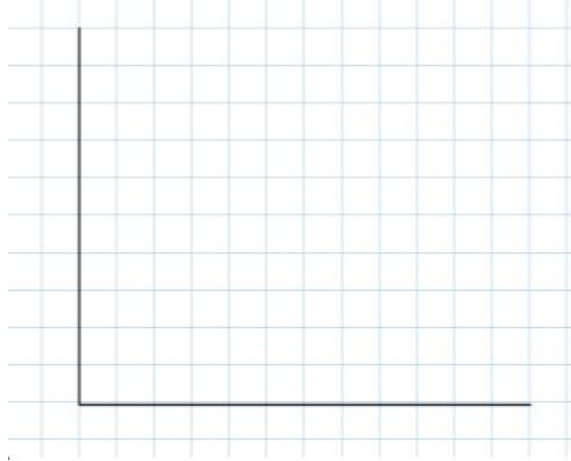
Explain:

6. Show and explain the effect that lower tropical fruit prices will have on the market for apples and apple farmers in the long-run.



Explain:

7. The state government in California, where only 5% of America's apples are grown, imposes a very large per-unit tax on apple growers. Assume this increases the growers' average variable costs (AVC) above the equilibrium price. Show the effect the state tax will have on a typical California apple farmer in the short-run.



Explain:

8. How will California growers respond to the state apple tax you illustrated in #7 in the long-run?

Explain:

9. Explain whether the apple market was achieving allocative efficiency and productive efficiency in the scenarios you illustrated in each of the following questions from this activity:

a. Question 2:

i. Allocative efficiency?

ii. Productive efficiency?

- b. Question 5:
 - i. Allocative efficiency?

 - ii. Productive efficiency?

- c. Question 1:
 - i. Allocative efficiency?

 - ii. Productive efficiency?

10. Explain why producers in perfectly competitive markets are likely to earn only a normal level of profit in the long-run.